

VZCZCXRO5593
PP RUEHDBU
DE RUEHNT #0611 0881226
ZNY CCCCC ZZH
P 291226Z MAR 06
FM AMEMBASSY TASHKENT
TO RUEHC/SECSTATE WASHDC PRIORITY 5446
INFO RUEHTA/AMEMBASSY ALMATY 7744
RUEHAH/AMEMBASSY ASHGABAT 1848
RUEHEK/AMEMBASSY BISHKEK 2372
RUEHDBU/AMEMBASSY DUSHANBE 2269

C O N F I D E N T I A L TASHKENT 000611

SIPDIS

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DEPT FOR SCA/CEN

E.O. 12958: DECL: 03/28/2016

TAGS: [PGOV](#) [PREL](#) [UZ](#) [ZK](#)

SUBJECT: THE END OF THE NEXIA? HYUNDAI LOOKING TO INVEST IN
UZDAEWOO

Classified By: CLASSIFIED BY AMB. JON R. PURNELL FOR REASONS 1.4 (B, D)

¶1. (C) Summary: A key agenda item for President Islam Karimov,s March 28 meetings in Korea will likely be a possible Hyundai investment into UzDaewoo. According to UzDaewoo senior management, they were informed just prior to Karimov,s departure that Hyundai would likely purchase up to half of the company. The GOU purchased 100 percent of the former Korean-Uzbek joint venture in 2005, when GM decided not to buy Uzbek operations as part of its overall takeover of Daewoo. UzDaewoo management and local parts producers are worried how a Hyundai purchase would affect their businesses.

In a separate, but likely related move, the Central Bank has severely limited UzDaewoo,s access to hard currency, making it nearly impossible for the company to import the necessary parts to meet orders. If the UzDaewoo factory has to shut down or decrease operations, due to either a new owner or lack of imported parts, it would negatively impact the already fragile Andijon economy. End summary.

¶2. (C) An UzDaewoo representative told Post that the GOU intends to sell half the company to Korean-owned Hyundai in the near future. The representative said that the current Uzbek Ambassador to South Korea, Vitaly Fen (an ethnic Korean), had already broached the idea in Seoul per President Karimov,s request. Despite ongoing negotiations, the GOU has kept a possible Hyundai investment very quite, only involving the highest levels of government. In fact, according to UzDaewoo representatives, the company,s management only learned of the change in ownership structure just prior to Karimov,s pending departure for Korea. The potential sale of 49 percent of the automotive company will likely be a major topic of conversation during Karimov,s March 28 visit.

¶3. (C) In September 2005, the GOU became 100 percent owner of UzDaewoo when it bought out Daewoo Korea. Earlier in 2005, Daewoo Korea was purchased out of bankruptcy by General Motors. While General Motors continued to engage with UzDaewoo, supplying car parts from its Korean operations, the company decided against purchasing Daewoo Korea,s interest in the factory, which is located in Andijon.

¶4. (C) According to our contact, the news of a possible Hyundai investment is making everyone, including top management, very nervous. Management is worried they might be replaced by Hyundai representatives. Local parts producers are worried that when Hyundai changes UzDaewoo's models to be in line with Hyundai brands, the parts they produce will no longer be compatible.

¶5. (C) Our contact also noted that the Central Bank has

limited UzDaewoo,s currency exchange quota to USD 100,000 for 2006. This quota will significantly limit the company,s ability to import the necessary parts to produce cars. Once the quota is filled, UzDaewoo will be forced to stop all imports from international suppliers, including Korean GM-Daewoo and German-owned Continental. (Note: The majority of parts that go into UzDaewoo cars are imported, as local factories do not have the technology necessary to produce them. End note.) Continental told our contact that, due to this reality, it cannot extend contracts with UzDaewoo because it cannot be assured of payment. Local car dealers cannot accept orders for new cars because they cannot guarantee that the factory will be able to supply the automobiles to the customer.

16. (C) Comment: UzDaewoo is a pillar of the economy in Andijon and the province,s largest semi-private employer. If the company is unable to get parts and decreases production, due to either a change in ownership or the inability to purchase parts, it will have a direct negative impact on an already troubled region.
PURNELL